

COMMONWEALTH OF KENTUCKY  
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of:

NOTICE AND APPLICATION FOR ADJUSTMENT	)	
OF RATES FOR JACKSON PURCHASE ELECTRIC	)	
COOPERATIVE CORPORATION, INCLUDING AN	)	
EMERGENCY INCREASE; AND SUPPLEMENT	)	CASE NO. 7676
APPLICANT'S PROPOSED RETAIL RATES TO	)	
UTILIZE A PILOT RATE PROGRAM (TIME OF	)	
DAY RATES)	)	

AND

NOTICE AND APPLICATION FOR ADJUSTMENT	)	
OF RATES OF JACKSON PURCHASE ELECTRIC	)	
COOPERATIVE CORPORATION TO EFFECT A	)	
PASS-THROUGH OF KENTUCKY UTILITIES	)	
COMPANY WHOLESALE POWER INCREASE FILED	)	
BEFORE THE FEDERAL ENERGY REGULATORY	)	
COMMISSION INCLUDING ANY EMERGENCY	)	
INCREASE APPROVED BY THAT COMMISSION	)	
PENDING A FINAL DECISION IN THE	)	
AFORESAID CASE, AND FOR PERMISSION	)	
TO PASS THE WHOLESALE RATE INCREASE	)	CASE NO. 7150
ON, ON THE COMPANY'S EXISTING TARIFFS	)	
OR ANY OTHER TARIFFS WHICH MAY BE MADE	)	
EFFECTIVE IN THE FUTURE BY JACKSON	)	
PURCHASE OR AN ORDER OF THE PUBLIC	)	
SERVICE COMMISSION IN CASE NO. 6992;	)	
AND FOR EMERGENCY CONSIDERATION IN	)	
ALLOWING APPLICANT TO PASS THROUGH	)	
THE WHOLESALE INCREASE	)	

O R D E R

On December 3, 1979, Jackson Purchase Electric Cooperative Corporation (hereinafter Jackson Purchase or Applicant) filed an Application with this Commission requesting authority to increase its revenue by approximately \$1,246,613 on an annual basis. Applicant further requested that the Commission consider granting emergency rate relief in the amount of \$638,960 for the purpose of alleviating the emergency existing in its cash flow situation, subject to hearing and refund. In addition to the rate relief requested herein, Jackson Purchase requested permission to institute a pilot program of residential Time-of-Day rates. On January 25, 1980, the Commission issued an Order approving the Time-of-Day pilot program requested herein.

Public hearings were conducted on January 11 and 17, 1980, for the purpose of direct testimony and cross-examination. The Consumer Protection Division in the Department of Law was granted leave to intervene and participated in the public hearings. This was the only party formally intervening, although numerous letters and petitions from concerned consumers have been received and included in the record.

At the public hearing in this matter on January 17, 1980, upon the motion of Jackson Purchase, the Commission moved to consolidate herein, Case No. 7150. An Order was entered in that matter on September 6, 1978, granting an interim rate increase to Jackson Purchase pending a final determination by the Federal Energy Regulatory Commission (FERC) in Docket No. ER 78-417 on the Kentucky Utilities Company wholesale rate increase. A settlement agreement was accepted and approved by the Federal Energy Regulatory Commission in that matter, on July 26, 1979, which reduced Kentucky Utilities Company's requested wholesale rate increase. Upon this settlement agreement being approved by the FERC, Jackson Purchase failed to apply to this Commission to reduce its retail rates accordingly. Furthermore, Applicant refused to respond to a request on August 17, 1979, to file revised tariffs and supporting documentation reflecting the settlement agreement in the FERC matter.

On February 13, 1980, the Commission issued an Order directing Jackson Purchase to file revised tariffs and the effects of the FERC Order on the wholesale rates. This information was submitted on February 15, 1980, and the Commission issued an order on February 28, 1980, setting out the final rates in Case No. 7150, and directing Jackson Purchase to file a plan to refund the revenue collected, between September 6, 1978, and February 28, 1980, in excess of the revenue that would have been collected under the final rates.

The refund plan was submitted by Jackson Purchase on March 21, 1980, and the Commission issued its order approving the refund plan on May 20, 1980.

On February 28, 1980, the Commission issued an Order in this matter granting Jackson Purchase an increase on an emergency basis of approximately \$639,000 annually based on actual test year conditions. The interim increase was subject to refund pending a final determination herein. Thereafter, on March 14, 1980, Applicant filed a petition for rehearing and reconsideration of the Orders entered in these combined cases stating that the simultaneous orders issued on February 28, 1980, did not in effect grant the emergency rate relief that applicant had sought by the fact that the rates were being reduced in one instance and increased in the other.

By Order dated April 1, 1980, the Commission granted the petition, set the hearing for April 21, 1980, directed the Company to file its testimony in prepared form on or before April 15, 1980, and reserved the right to affirm its previous Order. The rehearing was later rescheduled for April 30, 1980, and was held in the Commission's office in Frankfort, Kentucky, with the intervenor, Attorney General's Division of Consumer Intervention, present. On May 20, 1980, the Commission issued its Order affirming its February 28, 1980 Order.

The parties agreed to dispense with submitting briefs and the case was submitted for final determination.

#### TEST PERIOD

Applicant proposed, and the Commission has accepted, the twelve month period ending April 30, 1979, as the test period for the purposes of determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has considered adjustments where found to be known and measurable to reflect more current operating conditions. Applicant stated in testimony that the test period reflected a normal year's operations with no extraordinary revenues or expenses.

## VALUATION

### Net Investment

Jackson Purchase proposed a Net Investment rate base of \$18,816,466 in the application Exhibit III and later revised the calculation of working Capital to reflect a net investment rate base of \$18,655,874. The proposed rate base included actual year-end account balances with the exception of pre-payments which was based on the thirteen month average. The Commission accepts this method of reflecting this investment and further adjusts materials and supplies to utilize the thirteen month average. The Commission has also adjusted Applicant's proposed rate base to reflect the pro forma depreciation expense adjustment in the Accumulated Provision for Depreciation; and working Capital has been adjusted to reflect the pro forma operation and maintenance expense rather than the twelve month actual. The Commission is of the opinion that this method gives recognition to the changing conditions in which a utility operates.

Based on these adjustments the Commission finds that Applicant's Net Investment rate base is as follows:

Utility Plant in Service	\$20,367,836
Construction Work in Progress	1,242,651
Total Utility Plant	<u>\$21,610,487</u>
Add:	
Materials and Supplies	\$ 396,356
Prepayments	166,433
Working Capital	274,210
Sub-total	<u>\$ 836,999</u>
Deduct:	
Depreciation Reserve	\$ 3,848,310
Customer Advances for Construction	9,997
Sub-total	<u>\$ 3,858,307</u>
Net Investment	<u><u>\$18,589,179</u></u>

### Capital Structure

The Commission finds from the evidence of record that Jackson Purchase's Capital Structure at the end of the test period was \$18,731,080 and consisted of \$12,819,082 in

long-term debt and \$5,911,998 in equity. In determining the accepted capital structure the Commission has excluded the pro forma long-term debt, proposed by Jackson Purchase, in conformity with past Commission policy. The Commission is of the opinion that the year end balances in long-term debt and equity are the appropriate values to determine the reasonableness of the rates and charges proposed herein.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the proposed rates and charges.

#### REVENUES AND EXPENSES

Jackson Purchase proposed several normalization adjustments to revenue and expenses as reflected in the record on Exhibit 1. The revenue adjustments were made to reflect the actual test year operations that would have occurred if the rates existing at the end of the test period had been in effect throughout the entire test period. During the course of this proceeding, the Commission issued an order in Case No. 7150 which resulted in a decrease in rates based on the reduction in wholesale power costs, therefore, the Commission is of the opinion that a further adjustment should be made to revenue to reflect this reduction. This adjustment will reduce the pro forma revenue by approximately \$275,000.

The Applicant proposed and the Commission has accepted an adjustment to purchased power based on the Kentucky Utilities Company wholesale power rates in effect at the end of the test period which is consistent with the Commission's adjustment to revenue.

Jackson Purchase proposed a pro forma adjustment in the amount of \$206,774, to reflect expenses associated with transmission facilities to be purchased from Kentucky Utilities Company. During the course of the proceedings it was not known exactly when the purchase of these facilities would be

finalized. Since the hearing, Jackson Purchase has applied to the Commission for authority to borrow the needed funds to purchase these facilities. However, even after approval of the financing of these facilities the actual acquisition of the facilities and the associated operating costs will not be incurred until some future date. Additionally, it seems to us that if Jackson Purchase is going to acquire this investment that these costs will no longer be incurred by Kentucky Utilities. Accordingly, we believe Jackson Purchase should negotiate with KU for reduction in its power costs. For these reasons the Commission does not believe it would be reasonable to include this adjustment in its determination of revenue requirements in this case.

Jackson Purchase proposed adjustments to administrative and general expense, taxes, interest expense and an adjustment for salaries and wages to reflect known cost increases. The adjustment to salaries and wages was revised to include the actual increase of 5.7% for non-union employees effective January 1, 1980. The Commission has accepted these adjustments as proposed by Applicant.

Applicant's adjustment to interest on long-term debt was based on the annualization of interest on long-term debt outstanding at the end of the test period as well as other long-term debt that was already approved but not drawn down at the end of test period. The Commission is of the opinion that although all of the projected long-term debt funds had not been drawn down during the course of these proceedings that these additional funds will be acquired within a reasonable amount of time, and that the interest adjustment should be allowed as proposed by Applicant. In allowing this adjustment the Commission has given consideration to the fact that Jackson Purchase has outstanding a substantial short-term line of

credit as of the close of the calendar year 1979, which will be retired as soon as long-term debt funds are made available by REA and the Louisville Bank for Cooperatives, Applicants sole sources of long-term debt funds. Therefore, the Commission finds in this instance that the interest adjustment is justified.

On the Actual Income Statement contained in Applicant's Exhibit 1, test year non-operating margins in the amount of \$187,034 were omitted by Applicant, the non-operating income omitted consisted of Generation and Transmission Capital Credits in the amount of \$128,724 and Other Capital Credits & Patronage Dividends of \$58,310. Heretofore, the Commission has found that the Generation and Transmission Capital Credits assigned by power suppliers would not be included in the determination of revenue requirements insofar as the Times Interest Earned Ratio calculation is concerned. The Commission has not however, excluded for any purposes the Other Capital Credits and Patronage Dividends. Therefore, the Commission will include this amount of \$58,310 in calculating the Company's Times Interest Earned Ratio.

Jackson Purchase proposed an adjustment to Depreciation Expense of \$177,093 to reflect the annualization of depreciation based on revised depreciation rates applied to the end of test year plant in service. As a part of the record in this proceeding Applicant submitted a depreciation study in support of the revised depreciation rates.

The Commission has disallowed these new rates because it does not believe the Company has fully justified their use. From our review of the study and from the cross examination of the Company's witness we cannot determine how the estimated life-years were derived. In the depreciation study, however, it is stated "estimated service lives were obtained by discussion with appropriate cooperative personnel." It is our opinion that although the judgment of experts in determining estimated service lives is beneficial, in a technical study such as this,

more weight should be given to factual data. It is our conclusion, from the record, that the Company has given little or no weight to factual data.

As justification for using revised rates, the Company stated that the revised rates were within the ranges set forth by REA Bulletin 183-1. What they failed to mention was that about seventy percent of these rates are at the maximum end of the range allowed by this bulletin. We would point out that rates prescribed in REA Bulletin 183-1 are intended as guidelines for an REA borrower. However, we believe that before rates are prescribed in the upper end of the range allowed by this bulletin a thoroughly documented study which considers the actual mortality rate on plant additions should be performed.

Using the depreciation rates currently in effect the Commission finds that the annual depreciation expense based on plant account balances as of April 30, 1979, is \$683,080. Actual depreciation expense for the test period is \$547,443. Therefore, the Commission finds that the allowable adjustment to depreciation expense is \$135,637. The Company's proposed depreciation rates are rejected and depreciation expense shall be accrued based on the rates currently in effect.

After consideration of the accepted pro forma adjustments Applicant's adjusted operating statement is as follows:

	Actual <sup>(1)</sup> Test Period	Pro forma Adjustments	Adjusted
Operating Revenues	\$12,027,067	\$1,002,969	\$13,030,036
Operating Expenses	<u>11,544,118</u>	<u>1,020,229</u>	<u>12,564,347</u>
Net Operating Income	482,949	(17,260)	465,689
Interest on Long-Term Debt	506,753	294,101	800,854
Other Income and Deductions - Net	(40,312)	115,080	74,768
Net Income	<u>\$ (64,116)</u>	<u>\$ (196,281)</u>	<u>\$ (260,397)</u>



#### RATE OF RETURN

The actual rate of return on Jackson Purchase's Net Investment established herein for the test year was 2.6%. After taking into consideration the pro forma adjustments, Applicant's rate of return is reduced to 2.5%. The Commission is of the opinion that the adjusted rate of return is inadequate and a more reasonable rate of return would be 9.3%. In order to achieve this rate of return Jackson Purchase should be allowed to increase its annual revenue by approximately \$1,262,658. This additional revenue will provide a Times Interest Earned Ratio of 2.25 based on Net Income of approximately \$1,000,000, which will be sufficient to meet the requirements in Jackson Purchase's mortgages securing its long-term debt.

The revenue increase granted in this matter is approximately 83% of the amount requested based on the adjustment to revenue of \$275,000 previously discussed. The additional revenue granted herein will provide Operating Revenues of \$14,292,694 based on test year operating conditions.

#### FUEL ADJUSTMENT CLAUSE

As a part of the Application in this matter Jackson Purchase requested authority to modify its method of billing a large industrial consumer under the fuel adjustment clause. In support of this request Jackson Purchase stated that since the fuel expense associated with serving this consumer can be precisely identified, by virtue of the fact that this consumer is the only consumer being served by that substation, there should be a direct pass-through of this expense.

The Commission is of the opinion that this matter should be addressed in the biennial fuel adjustment clause proceedings. Therefore, the request to modify the fuel adjustment clause herein is hereby denied.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates and charges set out in Appendix "A" attached hereto will provide additional revenue in the amount of \$1,262,658 annually and are the fair, just, and reasonable rates for Jackson Purchase; and that the rates and charges proposed are unfair, unjust, and unreasonable in that they produce revenue in excess of the amount deemed reasonable herein.

IT IS THEREFORE ORDERED that the rates set out in Appendix "A" attached hereto and made a part hereof are approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rates and charges proposed by Jackson Purchase Electric Cooperative Corporation are unfair, unjust, and unreasonable in that they produce revenue in excess of that deemed reasonable herein and are hereby denied.

IT IS FURTHER ORDERED that Jackson Purchase Electric Cooperative Corporation shall file with the Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 30th day of May, 1980.

ENERGY REGULATORY COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

## APPENDIX "A"

### APPENDIX TO AN ORDER OF THE ENERGY REGULATORY COMMISSION IN CASE NO. 7676 DATED MAY 30, 1980.

The following rates and charges are prescribed for the customers in the area served by Jackson Purchase Electric Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

#### Rates: Monthly

##### Schedule R - Residential

<u>Service Charge:</u>	Minimum per month	\$5.90
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##### Energy Charge:

First 400 KWH	Per KWH per month	5.0¢
Next 600 KWH	Per KWH per month	3.5¢
Over 1,000 KWH	Per KWH per month	3.2¢

##### Schedule C - Small Commercial

<u>Service Charge:</u>	Minimum per month	\$5.90
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##### Energy Charge:

First 500 KWH	Per KWH per month	5.0¢
Next 500 KWH	Per KWH per month	4.5¢
Next 5,000 KWH	Per KWH per month	4.1¢
All over 6,000 KWH	Per KWH per month	3.2¢

##### Schedule SL - Mercury Vapor Security Lighting

175 Watt mercury vapor lamp	Per month per lamp	\$5.65
400 Watt mercury vapor lamp	Per month per lamp	8.42

##### Schedule CSL - Community & Public Authority Street Lighting

Each 175 Watt mercury vapor lamp	Per month per lamp	\$5.65
Each 400 Watt mercury vapor lamp	Per month per lamp	8.42

##### Schedule D - Commercial and Industrial Single and Three Phase Service (over 25 KVA)

<u>Service Charge:</u>	Minimum per month	\$14.75
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<u>Demand Charge:</u>	Per KW per month	\$ 3.70
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##### Energy Charge:

First 200 KWH per KW	Per KWH per month	2.45¢
Over 200 KWH per KW	Per KWH per month	2.25¢

### Schedule SP - Seasonal Power Service

#### Rate Per Year:

First	1,500 KWH	Per KWH per year	8.5¢
Next	500 KWH/H.P.	Per KWH per year	5.9¢
All Additional	KWH	Per KWH per year	3.2¢

#### MINIMUM ANNUAL CHARGE:

The minimum annual charge under the above rate shall be:

A. First 25 connected horsepower or less (minimum	\$290.00
Balance of connected horsepower Per H.P. per year	9.35

### Schedule I - Industrial Service

#### Rates Monthly:

##### Demand Charge:

First 5,000 KW of billing demand	Minimum per month	\$25,800.00
All Additional KW	Per KW per month	5.16

##### Energy Charge:

All Energy	Per KWH per month	1.547¢
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### Schedule ND - Commercial & Industrial & All Other Three Phase Service (under 25 KVA)

<u>Service Charge:</u>	Minimum per month	\$6.75
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##### Energy Charge:

First	500	Per KWH per month	5.0¢
Next	500	Per KWH per month	4.5¢
Next	5,000	Per KWH per month	4.1¢
All Over	6,000	Per KWH per month	3.2¢